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TOWN WATER RESOURCES

JUNE/JULY 2018

# Introduction:

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## Carefree Water Committee Members:

- John Crane, Vice Mayor
- Tom Cross, Planning & Zoning Vice Chairman
- Greg Crossman, Carefree Water Company Manager
- Stephen Hatcher, Councilmember
- Gary Neiss, Town Administrator
- Les Peterson, Mayor

## Consultant team (Coe Van Loo):

- Eric Laurin, PE, Project Manger – system evaluation, cost estimation
- Tracy Grunden, PE, B&N – condition assessment
- Dan Jackson, Willdan – financial analysis
- Michael Pearce – Water Attorney

## Key stakeholders:

- Lloyd Meyers, past Vice Mayor (historical perspective)
- Tony Geiger, past Cave Creek Water Advisory Committee Chairman (institutional knowledge on Cave Creek system)

# Objectives:

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- Water is the life blood of the desert southwest and must be managed accordingly.
- As a Carefree elected official it is our fiduciary duty to ensure that all Carefree residents & businesses have a reliable water supply.
- Elements defining a reliable supply:
  - Assured Water Supply – immediate and long term
  - Best Maintenance Practices
  - Redundancy/Backup connections

# Topics to be discussed:

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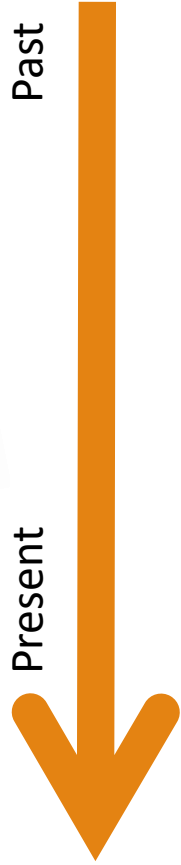
- Why now?
- Why are there two different water service areas/utilities servicing the Town of Carefree?
- What are the concerns associated with the Cave Creek water distribution system?
- What can be done to ensure a reliable water supply and accountability in response to these concerns?
- What is being evaluated and how will that assist in better understanding the situation and solutions?
- What are the next steps?

# Why Now?



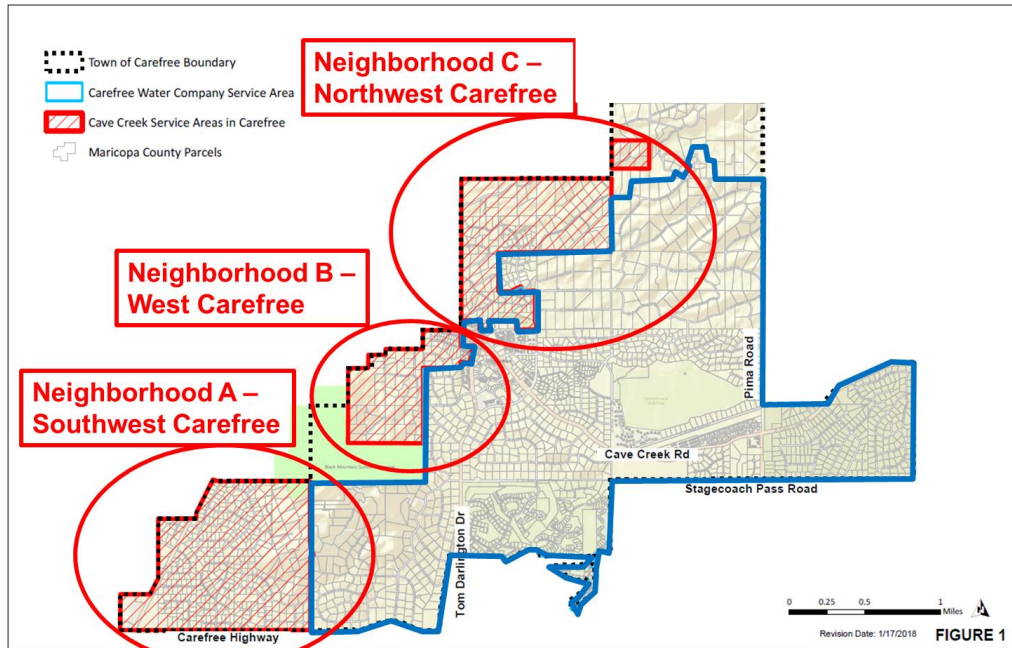
Past

Present



- Over last +4 years, significant amount of work has been undertaken by the Cave Creek Water Advisory Committee (WAC) to outline options to the Cave Creek Town Council to help stabilize their water system.
- As Cave Creek water issues have been publicly vetted:
  - There has been a lack of continuity in Cave Creek leadership to strategically and timely address the complexities of water infrastructure (3<sup>rd</sup> Town Manager and 3<sup>rd</sup> Utility Manager).
  - Under funded utility with high debt service has resulted in a growing divide in the lack of reinvestment in a fragile water system.
- Over the last +12 months, Carefree concerns have increased:
  - Ongoing drought has intensified;
  - Annual fire hydrant inspections have been delayed/neglected;
  - Conflicts in historical data regarding quantities of water supply has been publicly discussed raising concerns over water shortages as drought worsens;
  - This past winter/spring significant water rate increases (up to \$30 base rate increase for 1 inch meter) have been discussed to help address underfunding of water distribution system; and
  - More recently, the latest Water Utility manager has identify concerns regarding 3 pumps which support the transportation of Cave Creek's CAP water – its only water supply connection
- As a result of these evolving concerns:
  - Last fall - the Carefree Water Committee developed a scope of work to hire a consultant team;
  - This past winter - a Request for Proposal was issued ; and
  - This past spring - the Town hired engineers to evaluate the state of the water infrastructure.

# 2 Service Areas – One Community:



- Originally, Carefree was served by 2 private water companies with assigned territories (service areas) which had oversight by the Arizona Corporation Commission.
- Over time, the Town of Carefree acquired the Carefree Water Company service area (outlined in blue) and the Town of Cave Creek acquired the Cave Creek Water Company which contained a broader service area that included portions of the west side of the Town of Carefree (red cross-hatched areas).
- Nearly  $\frac{1}{4}$  of Carefree households are located within the Cave Creek system. These Carefree residents must rely upon the Town of Cave Creek for their water but they do not have representation (voting rights) regarding the management of this critical community infrastructure.

# Seasoned Leadership:

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## BACKGROUND:

- 17 year Carefree resident
- 35 years experience in water & waste water projects
- Involved in design, bidding, construction, start up, L-T maintenance and trouble shooting on thousands of water & waste water infrastructure projects
- Joined Cave Creek WAC August 2013
- Served thru December 2017
- Chair 2016 & 2017

## PRIOR INVOLVEMENT:

- Vision to see the need to control and manage water resources
- Purchase of Carefree system
- Ground water deal with Scottsdale
- IGA with Cave Creek

# Colorado River & Drought

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## Reason for concerns:

- Year 18 of expected 30 year drought
- Cave Creek gets 100% of their water from CAP
- Future cuts
- Article in AZ republic
- AZ priority
- Uncharted territory in water management
- Water systems prepare for cut backs
- Future outlook for Carefree



# Cave Creek Utilities

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## Current State:

- Cave Creek enters utility business
- 3 Enterprise accounts
- New ordinance forming the WAC
- Function and Purpose
- Project Desert Gold
- Drilling down on Cave Creek Utilities

## Looking into the future:

- IGA
- Bringing CAP water to Carefree
- Time sensitive issue

# State of water resources:

## CAREFREE WATER COMPANY:

- Multiple connections to access its Central Arizona Project (CAP) allocation through both Scottsdale (80%) and Cave Creek (20%).
- Managing the aquifer resulting in rising water levels. In some locations increases of approx. 100 feet.
- Have sufficient amounts of water to serve community through build out. Currently only using 48% of 1,400 AF supply of CAP.



VS.

## CAVE CREEK WATER UTILITY:

- One connection to the CAP, a 12 mile pipeline with 3 pump stations, if this line goes down this will result in a system shut down (3 near occurrences in last 5 years).
- Limited access to aquifer - no recharging, only potable wells located in Desert Hills area and are in a state of decline and contain arsenic.
- Limited CAP allocation (2606 acre feet) – the combination of unmanaged “will serve” letter commitments and unqualifiable obligations to serve unincorporated Desert Hills areas (417 acre feet this past year and increasing) will result in a lack of water for future customers and significant concerns for existing customers when potential future drought shortages affect CAP allocation.

# Financial standing:

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## CAREFREE WATER COMPANY:

- Established as an independent financial entity and is cash flow positive (revenues are satisfying expenses while also building capital reserves).
- Bonds for purchase of the water company will be paid off this year.
- Repayment of Town loans will begin this year and will be satisfied in 8 years.
- Reserves (savings) approaching \$1 million.

VS.

## CAVE CREEK UTILITY:

- An Enterprise Fund within the Town's budget and is cash flow negative - requiring annually approximately \$1.3 million of Cave Creek's General Fund to offset expenses.
- Enterprise budget of approximately \$10.3 million is approximately 56% of the Cave Creek budget.
- Approximately 50% of the Enterprise budget goes to serve utility's debt load.
- This high debt load and lack of continuity in leadership has resulted in significant deficiencies in prescribed/water industry best practices infrastructure maintenance.

# Cause for concerns . . .



- Water is the life blood to any community within the desert southwest.
- Lack of sustainable water resources can have a detrimental impact on property values, economic development and a community's reputation.
- Cave Creek has been struggling to find solutions to their faltering water resources while trying to balance impacts to the Town's budget.
- Carefree has concerns for its residents and businesses which are dependent on this system relating to maintenance, repairs and "equitable" treatment.
- Lack of progress has contributed to additional stress on a fragile system and have resulted in proposals by the Town of Cave Creek to significantly increase rates. For example, they have discussed increasing base rate for a 1" meter within the Cave Creek distribution system between \$20 - \$30 a month on top of the existing \$59 monthly base fee.
- Elected officials in Cave Creek will be making decisions that will impact these Carefree residents and businesses.
- Therefore, the Carefree Mayor and Council have initiated an engineering assessment of the Cave Creek distribution system located within Carefree to define the options.

# Carefree & Cave Creek Water Agreement:

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## **SECTION II. STATEMENT OF PURPOSE.**

**The purpose of this IGA is to create, set forth and define the intended relationships between Cave Creek and Carefree regarding the acquisition by Cave Creek of the Subjects of Condemnation within the Carefree Service Area and the future operation of Cave Creek's water utility within the Carefree Service Area after the Subjects of Condemnation have been acquired.**

# Carefree & Cave Creek Water Agreement:

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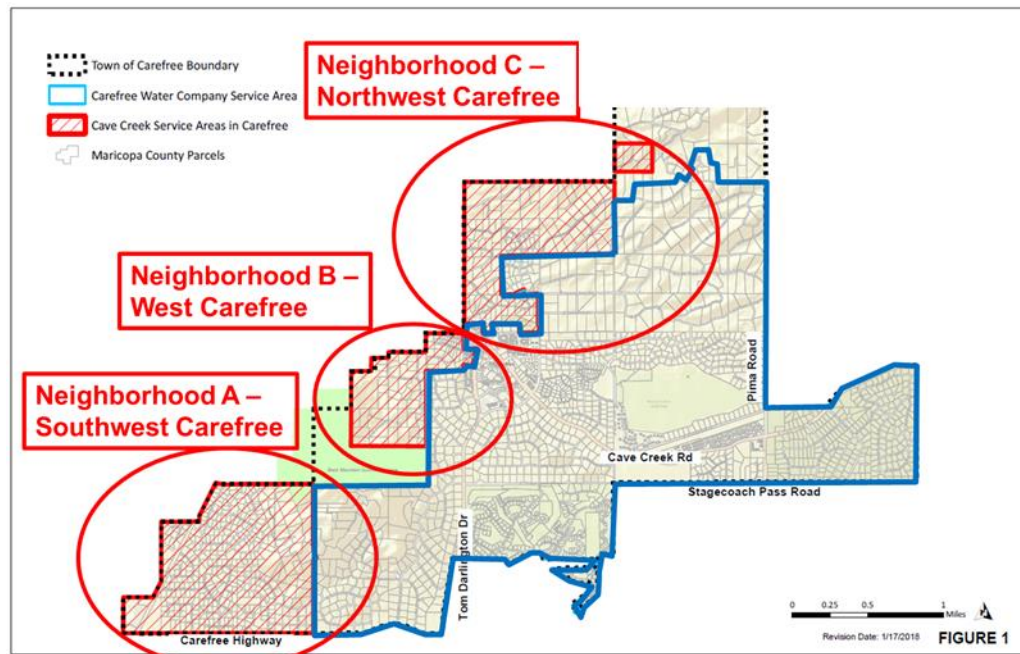
## **SECTION V. CONDEMNATION OF THE CAREFREE SERVICE AREA SYSTEM**

Cave Creek and Carefree agree that, after the Acquisition Date, Carefree shall, upon written request and reasonable notice, have full access to the books and records of the Cave Creek water utility and, for inspection purposes, to the physical facilities of the Cave Creek water utility located in the Carefree Service Area. The Parties agree that the Carefree Water Company, the Carefree UCFD or Carefree may file a condemnation action to acquire the Carefree Service Area System from Cave Creek. In that event, the action shall be conducted in accordance with the following terms and conditions:

5.1. Carefree Service Area System. The Carefree Service Area System ("System") will consist of 1) the wells, pipelines, pumps, meters and other facilities located in the Carefree Service Area and used to provide water service to the Carefree Service Area on the date of the filing of the condemnation complaint and 2) the portion of the Cave Creek CAP subcontract water used to serve the Carefree Service Area ("System CAP"). The quantity of the System CAP water shall be the product of the following Formula in which the following symbols have the following meanings:

"CD" = the total water demand, in acre feet, of the retail customers of Cave Creek water utility located in the Carefree Service Area during the calendar year immediately preceding the year in which the condemnation complaint is filed;

# Assessment Report:



- Originally, this assessment was going to be completed in phases with the more complex issues related to neighborhood A being completed first.
- It became more apparent that logistically it may be easier to complete the assessment of all three impacted neighborhoods at one time.
- There are 4 main tasks within the assessment:
  - Infrastructure inventory & condition evaluation.
  - Evaluate designs to service areas/neighborhoods (disconnect from one system and connect to another independent system).
  - Establish preliminary/comprehensive cost estimates
  - Determine financing mechanism and rate structures

# Next steps:

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- This report will be used as a basis for future Council decisions on the acquisition, engineering, financing and rate structure.
- Future public meetings will be held to discuss findings throughout the process; however, any sensitive legal or contractual issues will need to be managed by the Town's water attorney to ensure Carefree's legal interests are preserved.